

FERGUS COUNTY
LEWISTOWN, MONTANA
FINANCIAL STATEMENTS
 For the Year Ended June 30, 2011

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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FERGUS COUNTY

ORGANIZATION

June 30, 2011

BOARD OF COUNTY COMMISSIONERS

Carl Seilstad	Chairman
Sandra Youngbauer	Commissioner
Ken Ronish	Commissioner

COUNTY OFFICIALS

Thomas Meissner	Attorney
Rana Wichman	Clerk and Recorder
Phyllis Smith	Clerk of Court
Richard Brown	Coroner
Jack Shields	Justice of the Peace
Gary Kruger	Public Administrator
Thomas Killham	Sheriff
Rhonda Long	Superintendent of Schools
Dolores R. Sramek	Treasurer

OLNESS & ASSOCIATES, P. C.

BRENT D. OLNESS, CPA
CURT D. WYSS, CPA

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners
Fergus County
Lewistown, Montana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fergus County, Lewistown, Montana (the government) as of and for the year ended June 30, 2011, which collectively comprise the government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the government's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Because we did not observe year-end inventory counts and because the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities, we were unable to form an opinion regarding the amounts at which inventory was recorded in the governmental activities, the road fund and the aggregate remaining fund information.

Management has not recorded the other post employment benefit (OPEB) liability and related expense. Accounting principles generally accepted in the United States of America require that the OPEB liability and related expense be recorded, which would increase the liabilities and expenses and decrease net assets for the governmental activities, business-type activities and proprietary funds (excluding the hospital nursing home). The amount by which this departure would affect the liabilities, net assets and expenses is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to support the amounts at which inventory was recorded in the governmental activities, the road fund and the aggregate remaining fund information, as described in the third paragraph and except for the effects of not recording the OPEB liability and related expense as described in the preceding paragraph in the governmental activities, business-type activities and proprietary funds (excluding the hospital nursing home), the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, the road fund, proprietary funds (excluding the hospital nursing home) and the aggregate remaining fund information of the government, as of June 30, 2011, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund (excluding the road fund) and the hospital nursing home (a major enterprise fund) of the government as of June 30, 2011, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the government adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2011, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (Continued)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the government's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

O'Leary & Associates, PC

December 8, 2011

FERGUS COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

Our discussion and analysis of the financial performance provides an overview of the government's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with our financial statements which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of Fergus County exceeded its liabilities at the close of fiscal year 2011 by \$14,960,287. Of this amount, \$2,532,281 may be used to meet the County's ongoing operational needs and \$7,747,286 was invested in capital assets, net of related debt.
- The County's total net assets increased by \$1,192,708 as a result of this year's operations.
- The general fund's budgeted amounts did not change in fiscal year 2011. Actual revenues were \$207,823 more than budgeted revenues, while actual expenditures were \$385,727 less than budgeted appropriations.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the government as a whole and present a longer-term view of the finances. For governmental activities, fund statements tell how these services were financed in the short term, as well as, what remains for future spending. Fund financial statements also report the government's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the government acts solely as a trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements One of the most important questions asked about the government's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities (pages 8 and 9) report information about the government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the net assets and changes in them. You can think of net assets—the difference between assets and liabilities—as one way to measure the government's financial health, or financial position. Over time, increases or decreases in net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the property tax base and the condition of the capital assets, to assess the overall health.

In the Statement of Net Assets and the Statement of Activities, our government is divided into two kinds of activities:

Governmental activities—Basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.

Business-type activities—Fees charged to customers to help it cover all or most of the cost of certain services it provides. The Hospital and Airport funds are reported here.

Fund financial statements The fund financial statements (pages 10 through 18) provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law and by bond covenants. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

Governmental funds—Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations (pages 11 and 13, respectively).

FERGUS COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

Proprietary funds—Fees are charged to customers for the services provided—whether to outside customers or to other units of the government—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other programs and activities—such as the Self-Insurance fund.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the same basis of accounting as proprietary funds. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE GOVERNMENT AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In our case the assets of Fergus County exceeded its liabilities at the close of fiscal year June 30, 2011 by \$14,960,287. Of this amount, \$2,532,281 may be used to meet the County's ongoing operational needs, and \$7,747,286 was invested in capital assets, net of related debt. There are not currently any business-type activities restricted net assets. The restricted net assets for the governmental activities are subject to external resources on how they are used.

NET ASSETS:

	Governmental		Business-type		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 8,451,294	\$ 8,804,272	\$ 1,174,905	\$ 1,196,487	\$ 9,626,199	\$ 10,000,759
Capital assets	6,130,639	5,569,789	1,905,538	1,348,039	8,036,177	6,917,808
Total assets	14,581,933	14,374,041	3,080,443	2,544,526	17,662,376	16,918,567
Other liabilities	404,016	275,713	326,856	272,391	730,872	548,104
Long-term liabilities outstanding	1,160,266	1,754,191	810,951	848,693	1,971,217	2,602,884
Total liabilities	1,564,282	2,029,904	1,137,807	1,121,084	2,702,089	3,150,988
Net assets:						
Invested in capital assets, net of related debt	6,015,070	5,409,847	1,732,216	1,329,574	7,747,286	6,739,421
Restricted	4,680,720	2,680,364	-	-	4,680,720	2,680,364
Unrestricted	2,321,861	4,253,926	210,420	93,868	2,532,281	4,347,794
\$ 13,017,651	\$ 12,344,137	\$ 1,942,636	\$ 1,423,442	\$ 14,960,287	\$ 13,767,579	

FERGUS COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

CHANGE IN NET ASSETS:

	Governmental		Business-type		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 1,284,831	\$ 1,335,443	\$ 208,591	\$ 201,341	\$ 1,493,422	\$ 1,536,784
Operating grants and contributions	1,077,365	1,021,056	-	-	1,077,365	1,021,056
Capital grants and contributions	497,278	209,589	696,835	204,997	1,194,113	414,586
General revenues:						
Taxes	3,588,367	3,465,085	-	-	3,588,367	3,465,085
Licenses and permits	600	820	-	-	600	820
Intergovernmental	1,356,069	1,346,447	-	-	1,356,069	1,346,447
Unrestricted investment earnings	98,639	111,733	33,466	39,554	132,105	151,287
Miscellaneous	80,273	57,714	3	-	80,276	57,714
Gain on disposal of capital assets	243,595	-	-	-	243,595	-
Total revenues	8,227,017	7,547,887	938,895	445,892	9,165,912	7,993,779
Expenses:						
General government	1,974,354	1,889,549	-	-	1,974,354	1,889,549
Public Safety	1,608,026	1,592,255	-	-	1,608,026	1,592,255
Public works	2,324,053	2,271,975	-	-	2,324,053	2,271,975
Public health	895,556	953,259	-	-	895,556	953,259
Social and economic services	199,258	189,075	-	-	199,258	189,075
Culture and recreation	559,450	613,296	-	-	559,450	613,296
Housing and community development	15,846	7,600	-	-	15,846	7,600
Airport	-	-	364,030	343,514	364,030	343,514
Hospital	-	-	30,671	38,116	30,671	38,116
Interest on long-term debt	1,960	3,574	-	-	1,960	3,574
Total expenses	7,578,503	7,520,583	394,701	381,630	7,973,204	7,902,213
Transfers	25,000	30,000	(25,000)	(30,000)	-	-
Change in net assets	673,514	57,304	519,194	34,262	1,192,708	91,566
Net assets, beginning	12,344,137	12,286,833	1,423,442	1,389,180	13,767,579	13,676,013
Net assets, ending	\$ 13,017,651	\$ 12,344,137	\$ 1,942,636	\$ 1,423,442	\$ 14,960,287	\$ 13,767,579

Net assets for governmental activities increased \$673,514. The increase is mainly due to capital grants for courthouse and fairgrounds improvements. Net assets for business-type activities increased \$519,194. The increase can be attributable to a capital grant for airport improvements.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the major (most significant) funds. To be reported as a major fund, a fund must meet each of the two following criteria. Governments may choose to report other governmental and enterprise funds as major funds, even though they do not meet this test. The General fund is always reported as a major fund.

Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or total enterprise funds).

The same element that met the 10 percent criterion is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

General Fund – The general fund is the County's primary operating fund. It accounts for all financial resources of the general government, except for those accounted for in another fund. At the end of the fiscal year, fund balance was \$1,379,534. Overall fund balance increased \$239,940.

Road Fund – The road fund accounts for resources accumulated and payments made for the maintenance, repair and construction of county-owned roads. At the end of fiscal year 2011, the fund balance of the road fund was \$1,065,128, an increase of \$146,682. The increase is mainly due to various projects that did not start before year-end.

PILT Fund – The PILT (payment in lieu of taxes) fund accounts for resources accumulated from the federal government for payments in lieu of taxes. Expenditures from the fund are at the discretion of the Board of County Commissioners. During 2011, resources from the PILT fund were distributed to other funds to fund their budgets. The overall fund balance decreased \$320,814. This decrease occurred

FERGUS COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

because of funding needed for flood damage that needed to be fixed immediately and because of the continuing road department DEQ cleanup.

Airport Fund – There was an overall increase in cash and cash equivalents for the airport fund of \$110,963. There was significant construction in progress at the close of 2011 that was related to airport improvements. The project is funded through the federal government.

Hospital Fund – This fund accounts for the activities of the government's hospital capital lease and debt service activities.

GENERAL FUND ANALYSIS OF SIGNIFICANT BUDGETARY VARIATIONS

There were no budget resolutions done that affected the general fund budget for 2011.

CAPITAL ASSET AND DEBT ADMINISTRATION

Fergus County's investment in capital assets, net of related debt, as of June 30, 2011, was \$7,747,286. This investment in capital assets includes property, buildings, improvements, machinery, equipment and infrastructure (i.e. roads, bridges, etc.). For more information related to capital assets, see the notes to the basic financial statements.

Compensated absences are a liability of the County for unpaid vacation leave, sick leave, and compensatory time. The liability typically increases on an annual basis as a result of increasing wages and a general growth in the number of total compensable hours. The amount of this liability at June 30, 2011, was \$369,132, with a decrease of \$1,926, due to retiring employees and employee turnover. Other debt outstanding consists of notes payable, with various maturities.

THE GOVERNMENT'S FUTURE

Fergus County sustained several millions of dollars' worth of damage on hundreds of sites due to the spring snow melt and the disastrous flooding that followed. Our road and bridge departments, along with our DES and sheriff's department have all been working diligently to work through this. There is extensive paperwork with FEMA and with projects not covered by FEMA there are grants to apply for and administer if we are successful in getting them. It is estimated that some of the work will not be completed for a couple of years.

The following factors were considered when preparing the Fergus County Budgets for fiscal year 2012:

- Flood damage is one of our top financial concerns at this time.
- Lack of funds to repair the necessary roads and bridges, along with a shortage of staff due to a lack of qualified applicants continues to be an issue for the road and bridge departments.
- High energy and fuel costs are a major concern for several of Fergus County's departments, including but not limited to the road, bridge, weed, and sheriff.
- The Penta cleanup at the road department has been and continues to have a huge negative financial impact on the County. This project has cost more than anyone anticipated.
- The jail continues to need updates and improvements.
- The Department of Revenue is considering moving out of the Fergus County Courthouse. If they move, we will lose the rent they currently pay. If they stay, there will be some remodeling required to give them the space they are asking for.
- The Governor line-item vetoed TSEP monies for Fergus County. While we are working with others to try to get this reversed, it is still necessary to make the necessary bridge replacements, etc., that this money would have helped to fund.
- Energy efficiency work continues to be done at the Fergus County Fairgrounds.
- Continuing on a rotation schedule with replacement of large equipment for the road and bridge departments is essential and is always a budgetary concern.
- Fergus County applied for and was approved for an InterCap Loan to help with road and bridge projects. We are paying it back as we are able along with keeping up with the required payments to contractors, etc., requires extra paperwork and planning.
- Concern over the possible discontinuance of PILT monies forces us to look to the future years for funding options.

FERGUS COUNTY
STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 4,898,905	\$ 149,270	\$ 5,048,175
Investments	2,630,811	80,147	2,710,958
Receivables:			
Taxes and assessments	249,365	-	249,365
Governments	249,196	50,436	299,632
Roundhouse road	15,574	-	15,574
Stop loss reimbursement	36,525	-	36,525
Weed	13,602	-	13,602
Other	12,186	10,526	22,712
Inventories	345,130	-	345,130
Restricted assets:			
Cash and equivalents	-	168,406	168,406
Investments	-	90,451	90,451
Net investment in capital lease	-	625,669	625,669
Capital assets:			
Land and construction in progress	67,687	937,650	1,005,337
Depreciable capital assets, net	6,062,952	967,888	7,030,840
Total assets	14,581,933	3,080,443	17,662,376
LIABILITIES			
Accounts payable:			
Vendors	243,592	67,999	311,591
IBNR	137,901	-	137,901
Due to Central Montana Medical Center	-	258,857	258,857
Deferred revenue	22,523	-	22,523
Long-term liabilities:			
Due within one year:			
Notes and capital leases	80,630	220,536	281,166
Compensated absences	35,717	1,196	36,913
Pollution remediation obligation	687,525	-	687,525
Due in more than one year:			
Notes and capital leases	54,939	578,455	633,394
Compensated absences	321,455	10,764	332,219
Total liabilities	1,564,282	1,137,807	2,702,089
NET ASSETS			
Invested in capital assets, net of related debt	6,015,070	1,732,216	7,747,286
Restricted for:			
General government	379,304	-	379,304
Public safety	184,226	-	184,226
Public works	1,828,167	-	1,828,167
Public health	911,911	-	911,911
Social and economic services	58,679	-	58,679
Culture and recreation	110,631	-	110,631
Housing and community development	360,784	-	360,784
Capital projects	847,018	-	847,018
Unrestricted	2,321,861	210,420	2,532,281
Total net assets	\$ 13,017,651	\$ 1,942,636	\$ 14,960,287

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 1,974,354	\$ 205,173	\$ 214,229	\$ 164,906	\$ (1,390,046)	\$ -	\$ (1,390,046)
Public safety	1,608,026	111,880	260,198	-	(1,235,948)	-	(1,235,948)
Public works	2,324,053	422,748	294,982	156,339	(1,449,984)	-	(1,449,984)
Public health	895,556	263,460	283,370	-	(348,726)	-	(348,726)
Social and economic services	199,258	-	-	-	(199,258)	-	(199,258)
Culture and recreation	559,450	281,570	24,586	176,033	(77,261)	-	(77,261)
Housing and community development	15,846	-	-	-	(15,846)	-	(15,846)
Interest on long-term debt	1,960	-	-	-	(1,960)	-	(1,960)
Total governmental activities	7,578,503	1,284,831	1,077,365	497,278	(4,719,029)	-	(4,719,029)
Business-type activities:							
Hospital	30,671	-	-	-	-	(30,671)	(30,671)
Airport	364,030	208,591	-	696,835	-	541,396	541,396
Total business-type activities	394,701	208,591	-	696,835	-	510,725	510,725
Total	\$ 7,973,204	\$ 1,493,422	\$ 1,077,365	\$ 1,194,113	(4,719,029)	510,725	(4,208,304)
General revenues:							
Property taxes					3,588,367	-	3,588,367
Licenses and permits					600	-	600
Intergovernmental					1,356,069	-	1,356,069
Unrestricted investment earnings					98,639	33,466	132,105
Miscellaneous					80,273	3	80,276
Gain on disposal of capital assets					243,595	-	243,595
Transfers					25,000	(25,000)	-
Total general revenues and transfers					5,392,543	8,469	5,401,012
Change in net assets					673,514	519,194	1,192,708
Net assets - beginning					12,344,137	1,423,442	13,767,579
Net assets - ending					\$ 13,017,651	\$ 1,942,636	\$ 14,960,287

See notes to basic financial statements.

FERGUS COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

				Other	Total
	General	Road	PILT	Governmental Funds	Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 954,291	\$ 695,491	\$ 723,007	\$ 1,984,287	\$ 4,357,076
Investments	512,474	373,493	388,270	1,065,601	2,339,838
Receivables:					
Taxes and assessments	109,420	38,112	-	101,833	249,365
Governments	14,632	-	-	234,564	249,196
Roundhouse road	-	-	-	15,574	15,574
Weed	-	-	-	13,802	13,602
Other	-	-	-	12,186	12,186
Due from other funds	-	-	-	66,507	66,507
Inventories	-	50,061	-	295,069	345,130
Total assets	\$ 1,590,817	\$ 1,157,157	\$ 1,111,277	\$ 3,789,223	\$ 7,648,474
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable-vendors	\$ 101,863	\$ 53,917	\$ -	\$ 87,812	\$ 243,592
Due to other funds	-	-	-	66,507	66,507
Deferred revenue	109,420	38,112	-	139,930	287,462
Total liabilities	211,283	92,029	-	294,249	597,561
Fund balances:					
Nonspendable:					
Inventory	-	50,061	-	295,069	345,130
Noncurrent portion of advance to funds	-	-	-	65,545	65,545
Restricted:					
General government	-	-	-	358,978	358,978
Public safety	-	-	-	177,949	177,949
Public works	-	1,015,067	-	434,356	1,449,423
Public health	-	-	-	904,699	904,699
Social and economic services	-	-	-	48,879	48,879
Culture and recreation	-	-	-	100,343	100,343
Housing and community development	-	-	-	295,239	295,239
Capital projects	-	-	-	794,590	794,590
Committed:					
General government	-	-	1,111,277	85,834	1,197,111
Unassigned	1,379,534	-	-	(66,507)	1,313,027
Total fund balances	1,379,534	1,065,128	1,111,277	3,494,974	7,050,913
Total liabilities and fund balances	\$ 1,590,817	\$ 1,157,157	\$ 1,111,277	\$ 3,789,223	\$ 7,648,474

See notes to basic financial statements.

FERGUS COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2011

Total fund balance, governmental funds	\$ 7,050,913
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net assets.	6,130,639
Certain other long-term assets are not available to pay current period expenditures and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net assets.	264,939
The assets and liabilities of the self-insurance fund (internal service) are not included in the fund financial statements, but are included in the governmental activities of the statement of net assets.	731,426
Some liabilities (such as notes payable, capital leases, pollution remediation obligations and compensated absences) are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the statement of net assets.	<u>(1,160,266)</u>
Net assets of governmental activities	<u>\$ 13,017,651</u>

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General	Road	PILT	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes/assessments	\$ 1,877,852	\$ 557,775	\$ -	\$ 1,157,951	\$ 3,593,578
Fines and forfeitures	84,960	-	-	10,202	95,162
Licenses and permits	600	-	-	26,400	27,000
Intergovernmental	287,897	821,566	-	1,560,107	2,669,570
Charges for services	389,966	89,065	-	684,222	1,163,253
Investment earnings	67,824	9	565	16,500	84,898
Miscellaneous	18,279	-	-	112,632	130,911
Total revenues	<u>2,727,378</u>	<u>1,468,415</u>	<u>565</u>	<u>3,568,014</u>	<u>7,764,372</u>
EXPENDITURES					
Current:					
General government	1,466,852	-	15,103	390,044	1,871,999
Public safety	1,287,502	-	-	84,275	1,371,777
Public works	-	1,514,382	-	950,157	2,464,539
Public health	187,334	-	-	653,000	840,334
Social and economic services	8,390	-	-	159,933	168,323
Culture and recreation	-	-	-	464,248	464,248
Housing and community development	-	-	1,865	13,981	15,846
Debt service:					
Principal	-	-	-	152,534	152,534
Interest and other charges	-	-	-	1,960	1,960
Capital outlay	19,000	245,382	-	590,376	854,738
Total expenditures	<u>2,969,078</u>	<u>1,759,744</u>	<u>16,968</u>	<u>3,460,508</u>	<u>8,206,298</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(241,700)</u>	<u>(291,329)</u>	<u>(16,403)</u>	<u>107,506</u>	<u>(441,926)</u>
OTHER FINANCING SOURCES (USES)					
Capital lease	-	108,181	-	-	108,181
Sale of capital assets	-	-	-	30,000	30,000
Insurance recoveries	401,309	968	-	4,857	407,134
Transfers in	134,412	328,862	-	158,584	621,858
Transfers out	(55,081)	-	(304,411)	(192,366)	(551,858)
Total other financing sources (uses)	<u>480,640</u>	<u>438,011</u>	<u>(304,411)</u>	<u>1,075</u>	<u>615,315</u>
Net change in fund balances	<u>238,940</u>	<u>146,682</u>	<u>(320,814)</u>	<u>108,581</u>	<u>173,389</u>
Fund balances - beginning	<u>1,140,594</u>	<u>918,446</u>	<u>1,432,091</u>	<u>3,386,393</u>	<u>6,877,524</u>
Fund balances - ending	<u>\$ 1,379,534</u>	<u>\$ 1,065,128</u>	<u>\$ 1,111,277</u>	<u>\$ 3,494,974</u>	<u>\$ 7,050,913</u>

See notes to basic financial statements.

FERGUS COUNTY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds	\$ 173,389
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report outlay for capital assets as expenditures because such outlay uses current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	347,275
This is the amount by which capital outlay (\$854,736) exceeded depreciation (\$507,463) in the current period.	347,275
Governmental funds report the entire net sales price from the sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the asset. Thus, the change in net assets differs from the change in fund balance by the book value of the asset disposed of.	213,595
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.	(3,479)
Governmental funds report debt proceeds as current financial resources. In contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of debt principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This amount is the difference between debt issued and debt repayments.	44,353
Pollution remediation costs are recognized as expenditures in the government funds only to the extent they are expected to be liquidated with expendable available resources. In contrast, the entire pollution remediation obligation is recorded in the statement of net assets and the liability reduced as the costs are paid.	547,595
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds:	1,977
Compensated absences	1,977
Internal service funds are used by management to charge the costs of certain activities, such as self insurance, to individual funds. The change in net assets of the self insurance internal service fund is reported with governmental activities.	(651,191)
Change in net assets of governmental activities	<u>\$ 673,514</u>

See notes to basic financial statements.

FERGUS COUNTY
 STATEMENT OF FUND NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2011

	Enterprise Funds			Governmental Activities
	Hospital Nursing Home	Airport	Total	Internal Service Fund
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ 149,270	\$ 149,270	\$ 541,829
Investments	-	80,147	80,147	290,973
Due from other governments	-	50,436	50,436	-
Receivables:				
Stop loss receivable	-	-	-	36,525
Other	-	10,526	10,526	-
Total current assets	-	290,379	290,379	869,327
Non-current assets:				
Restricted assets:				
Cash and cash equivalents	188,406	-	188,406	-
Investments	90,451	-	90,451	-
	258,857	-	258,857	-
Net investment in capital lease	625,669	-	625,669	-
Capital assets:				
Land	-	13,261	13,261	-
Construction in progress	-	924,389	924,389	-
Buildings and improvements	-	5,092,645	5,092,645	-
Machinery and equipment	-	190,041	190,041	-
Less: accumulated depreciation	-	(4,314,798)	(4,314,798)	-
	-	1,905,538	1,905,538	-
Total non-current assets	884,526	1,905,538	2,790,064	-
Total assets	884,526	2,195,917	3,080,443	869,327
LIABILITIES				
Current liabilities:				
Accounts payable	-	67,999	67,999	137,901
Due to Central Montana Medical Center	258,857	-	258,857	-
Compensated absences	-	1,196	1,196	-
Notes payable	200,393	20,143	220,536	-
Total current liabilities	459,250	89,338	548,588	137,901
Non-current liabilities:				
Compensated absences	-	10,764	10,764	-
Notes payable	425,276	153,179	578,455	-
Total non-current liabilities	425,276	163,943	589,219	-
Total liabilities	884,526	253,281	1,137,807	137,901
NET ASSETS				
Invested in capital assets, net of related debt	-	1,732,216	1,732,216	-
Unrestricted	-	210,420	210,420	731,426
Total net assets	\$ -	\$ 1,942,636	\$ 1,942,636	\$ 731,426

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	Enterprise Funds			Governmental Activities
	Hospital Nursing Home	Airport	Total	Internal Service Fund
REVENUES				
Charges for services	\$ -	\$ 208,591	\$ 208,591	\$ 143,506
Total operating revenues	-	208,591	208,591	143,506
OPERATING EXPENSES				
Personal services	-	96,858	96,858	-
Supplies	-	18,614	18,614	-
Purchased services	-	61,635	61,635	-
Fixed charges	-	5,258	5,258	-
Administration and insurance	-	-	-	183,501
Claims	-	-	-	579,937
Depreciation	-	180,545	180,545	-
Total operating expenses	-	362,910	362,910	763,438
Operating loss	-	(154,319)	(154,319)	(619,932)
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	30,671	2,795	33,466	13,741
Miscellaneous revenue	-	3	3	-
Interest expense	(30,671)	(1,120)	(31,791)	-
Total non-operating revenue (expenses)	-	1,678	1,678	13,741
Loss before contributions and transfers	-	(152,641)	(152,641)	(606,191)
Capital contributions	-	696,835	696,835	-
Transfers out	-	(25,000)	(25,000)	(45,000)
Change in net assets	-	519,194	519,194	(651,191)
Total net assets - beginning	-	1,423,442	1,423,442	1,382,617
Total net assets - ending	\$ -	\$ 1,942,636	\$ 1,942,636	\$ 731,426

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	Enterprise Funds			Governmental Activities
	Nursing Home	Airport	Total	Internal Service Fund
CASH FLOWS FROM OPERATIONS:				
Cash received for health insurance premiums	\$ -	\$ -	\$ -	\$ 259,903
Cash received from customers	-	198,065	198,065	-
Medical claims paid	-	-	-	(487,705)
Cash paid to employees	-	(95,715)	(95,715)	-
Cash paid to suppliers for goods and services	-	(86,167)	(86,167)	(183,501)
Net cash provided (used) by operating activities	-	16,183	16,183	(411,303)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cash transferred out	-	(25,000)	(25,000)	(45,000)
Miscellaneous cash received	-	3	3	-
Net decrease in amount due to CMMC	(857)	-	(857)	-
Net cash used by noncapital financing activities	(857)	(24,997)	(25,854)	(45,000)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Cash paid for purchase of capital assets	-	(683,154)	(683,154)	-
Capital contribution	-	646,399	646,399	-
Cash received from notes	-	175,000	175,000	-
Principal payments on debt	(192,650)	(20,143)	(212,793)	-
Interest paid	(30,671)	(1,120)	(31,791)	-
Net cash provided (used) by capital financing activities	(223,321)	116,982	(106,339)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net change in investments	116,790	(80,147)	36,643	407,943
Payments received on capital lease	192,650	-	192,650	-
Interest received	30,671	2,795	33,466	13,741
Net cash provided (used) by investing activities	340,111	(77,352)	262,759	421,684
Change in cash and cash equivalents	115,933	30,816	146,749	(34,619)
Cash and cash equivalents - beginning	52,473	118,454	170,927	576,448
Cash and cash equivalents - ending	\$ 168,406	\$ 149,270	\$ 317,676	\$ 541,829
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating loss	\$ -	\$ (154,319)	\$ (154,319)	\$ (619,932)
Adjustment to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation	-	180,545	180,545	-
(Increase) decrease in accounts receivable	-	(10,526)	(10,526)	116,397
Increase in accounts payable	-	432	432	92,232
Increase in compensated absences	-	51	51	-
Net cash provided (used) by operating activities	\$ -	\$ 16,183	\$ 16,183	\$ (411,303)
Noncash investing, noncapital and capital financing activities:				
Purchase of capital assets on account	\$ -	\$ 62,840	\$ 62,840	\$ -
Noncash capital contribution	-	50,436	50,436	-

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 8,464,838	\$ 472,140
Investments	4,545,789	-
Taxes and assessments receivable	-	1,054,883
Total assets	13,010,627	\$ 1,527,023
LIABILITIES		
Accounts payable	-	\$ 472,140
Due to others	-	17,106
Due to special districts	-	28,708
Due to state	-	167,422
Due to schools	-	636,495
Due to cities/towns	-	205,152
Total liabilities	-	\$ 1,527,023
NET ASSETS		
Held in trust	\$ 13,010,627	

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For the Year Ended June 30, 2011

	External Investment Trust Fund
ADDITIONS	
Contributions	\$ 27,567,212
Interest earnings	153,309
Total additions	27,720,521
DEDUCTIONS	
Withdrawals	28,600,989
Administrative	3,220
Total deductions	28,604,189
Change in net assets	(883,668)
Net assets - beginning	13,894,295
Net assets - ending	\$ 13,010,627

See notes to basic financial statements.

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance. The government adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The government's significant accounting policies are described below.

Reporting Entity

For financial reporting purposes, the government has included all funds, organizations, agencies, boards, commissions and authorities. The government has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the government are such that exclusion would cause the government's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the government. Based on the aforementioned criteria, the government has no component units.

Related Organizations - The Board of County Commissioners is responsible for appointing members of the boards of other organizations, but the government's accountability for these organizations does not extend beyond making the appointments.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. Fiduciary funds are excluded from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges for services which report fees and other charges provided by a given function or identifiable activity 2) operating grants and contributions and 3) capital grants. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The government reports the following major governmental funds:

The general fund is used to account for all financial resources, except those required by law or administrative action to be accounted for in another fund. The general fund is always reported as a major fund in the governmental fund statements.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The following special revenue funds are reported as major.

The road fund accounts for resources accumulated from property taxes and state entitlement and payments made for the maintenance, repair and construction of county-owned roads.

The PILT fund accounts for resources accumulated from the federal government for payments in lieu of taxes. Payments made from the fund are at the discretion of the Board of County Commissioners.

The government reports the following major proprietary funds:

The hospital fund accounts for the activities of the government's hospital capital lease and debt service activities.

The airport fund accounts for the activities of the government's airport services.

Additionally, the government reports the following fund types:

Internal service funds account for the financing of services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

The government's investment trust fund accounts for the external portion of the cash management pool, which represents resources that belong to legally separate entities.

Agency funds are custodial in nature and are used to account for assets that the government holds for others in an agency capacity.

Assets, Liabilities and Net Assets or Equity

Cash and Investments

The County maintains and controls an investment pool consisting of funds belonging to the government and also of funds held by the County Treasurer belonging to legally separate entities, such as school districts, fire and water districts and other special districts. The investment pool is managed by the County Treasurer and overseen by the Board of County Commissioners. The County Treasurer is responsible for setting the investment policies for the pool, reviewing and monitoring investments to ensure the County's investment policies are met and ensuring investments are in compliance with State statute.

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool. 61% of the investment pool belongs to these districts.

Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values. The pool unit value is fixed at \$1 for purchases and redemptions. Income is automatically reinvested in additional units. The government did not provide or obtain any legally binding guarantees to support the value of the units.

Investments in the pool are reported at fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents.

Investment income from the pool is allocated to individual funds of the County and to the external participants based on the fund or participant's cash and investment balance at the end of each month. The net change in fair value of the pool is also allocated to individual funds of the County and to the external participants based on the fund or participant's cash and investment balance at the end of the year.

The government charges a 2% administrative fee to all participants in the pool. The fee is deducted prior to distributing interest to the County funds and pool participants. The administrative fee charged during the year was \$5,322.

Receivables and Payables

In the fund financial statements, transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." In governmental fund financial statements, advances between funds are offset by an amount reported as nonspendable fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer. No allowance is made for uncollectible taxes as they are not considered significant.

Net Investment in Capital Lease

Net investment in capital lease is a direct financing lease in which Fergus County (lessor) is leasing to the Central Montana Medical Facilities, Inc.-CMMF (lessee) land, buildings and equipment. The lease transfers substantially all of the risks and benefits of ownership from the lessor to the lessee. In a direct financing lease, the lessor finances the in-substance purchase of the property by the lessee. Financing to construct the hospital and nursing home was obtained through the issuance of debt in Fergus County's name.

Inventories

All inventories are valued at cost. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets

The Board of County Commissioners determined it was in the best interest of the citizens of the County to establish short-term (\$222,578) and discretionary (\$36,279) cash and investment accounts within the Hospital enterprise fund. These cash accounts were established through contributions from CMMF and remain the property of CMMF.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 for machinery and equipment, \$20,000 for buildings and improvements and \$35,000 for infrastructure and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest expense incurred by the government for capital assets.

Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

Assets	Years
Building and improvements	10-100
Infrastructure	100
Machinery and equipment	5-25

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under State statute to a maximum accumulation of two times the amount earned annually. Sick leave is accumulated at 12 days per year with no limitations on the amount that may be accumulated. Upon retirement or resignation, an employee is eligible for 100 percent of the accumulated vacation leave and 25 percent of the accumulated sick leave.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. In the fund financial statements, the face amount of debt issued is reported as an other financing source.

Fund Equity

In the government-wide statements, equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets - consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Proprietary fund equity is classified the same as in the government-wide statements.

In the fund statements, governmental fund equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balance - amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority (i.e., governing body). To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the governmental funds have been restated to reflect the above classifications.

The government establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption or amendment of the budget.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the government considers amounts to have been spent first out of committed funds, then assigned funds, and

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

finally unassigned funds, as needed, unless the governing body has provided otherwise in its commitment or assignment actions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The Roundhouse Road (\$66,507) fund had a deficit fund balance as of June 30, 2011. The Roundhouse Road deficit is expected to be eliminated through the recovery of construction costs from hookup fees or a contribution from the General fund.

NOTE 3. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

The government's cash, cash equivalents and investments are reported as follows:

Governmental activities	\$ 7,529,716
Business-type activities	488,274
Fiduciary funds	<u>13,482,767</u>
	<u>\$ 21,500,757</u>

Total carrying value of cash, cash equivalents and investments as of June 30, 2011, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 1,325	\$ -	\$ 1,325
Cash in banks:			
Demand deposits	5,274,467	-	5,274,467
Savings deposits	3,231,571	-	3,231,571
Time deposits	-	752,198	752,198
Brokers:			
Money market	1,000,000	-	1,000,000
U.S. Government securities	-	6,595,000	6,595,000
Short-term Investment Program (STIP)	4,455,000	-	4,455,000
Repurchase agreements	<u>191,196</u>	<u>-</u>	<u>191,196</u>
	<u>\$ 14,153,559</u>	<u>\$ 7,347,198</u>	<u>\$ 21,500,757</u>

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2011, \$8,436,781 of the government's bank balance of \$9,509,807 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 3,870,022
Uninsured and collateral held by the pledging bank's trust department not in the government's name	<u>4,566,759</u>
	<u>\$ 8,436,781</u>

State statutes require that the government obtain securities for the uninsured portion of deposits as follows: 1.) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2.) 100% if the ratio of net worth to total assets is less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the government's deposits as of June 30, 2011, exceeded the amount required by state statute.

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

The investment pool portfolio as of June 30, 2011 is listed below. The security type percentage is based on the book value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
Certificates of deposit	.75 to 2.40%	Various	\$ 752,198	\$ 752,198	\$ 752,198	10.24%
U.S. Government securities	1.25 to 2.45%	Various	6,595,000	6,595,000	6,576,887	89.76%
				<u>\$ 7,347,198</u>	<u>\$ 7,329,085</u>	

Interest Rate Risk. The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, under state statute, an investment may not have a maturity date exceeding 5 years, except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Credit Risk. Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values. The government has no investment policy that would further limit its investment choices. The Short-Term Investment Pool (STIP) maintained by the State of Montana has certain investments in derivatives. GASB requires the nature of the underlying securities and market, credit and legal risks be disclosed. Reference to the audit of the State of Montana would identify the level of risk associated with STIP.

Investments made by the government are summarized below. The investments that are represented by specific identifiable investment securities are categorized in the following manner: Category 1-Insured or registered, with securities held by the government or its agent in the government's name; Category 2-Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; Category 3-Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
Repurchase agreements	\$ -	\$ -	\$ 191,196	\$ 191,196	\$ 191,196
Brokers:					
Money market	-	-	1,000,000	1,000,000	1,000,000
U.S. Government securities	1,000,000	-	5,595,000	6,595,000	6,576,887
	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 6,786,196</u>	7,786,196	7,788,083
STIP				4,455,000	4,455,000
				<u>\$ 12,241,196</u>	<u>\$ 12,223,083</u>

Following is the condensed schedule of changes in net assets and net assets for the investment pool for the year ended June 30, 2011:

	Internal	External	Total
Net assets - beginning of year	\$ 9,220,106	\$ 13,894,295	\$ 23,114,401
Contributions from participants	17,008,010	27,567,212	44,575,222
Investment earnings	112,776	153,309	266,085
Administration expenses	(2,102)	(3,220)	(5,322)
Distributions to participants	<u>(17,848,660)</u>	<u>(28,600,969)</u>	<u>(46,449,629)</u>
Net assets - end of year	<u>\$ 8,490,130</u>	<u>\$ 13,010,627</u>	<u>\$ 21,500,757</u>

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Net Investment in Capital Lease

The County entered into a lease agreement with Central Montana Medical Facilities, Inc. (CMMF) on April 1, 1989. The County leases land, buildings and equipment to CMMF. The lease is classified as a direct financing lease. The components of net investment in capital lease as of June 30, 2011 are as follows:

	<u>Business-type Activities</u>
Minimum lease payments receivable	\$ 669,966
Less: unearned income	<u>(44,297)</u>
	<u>\$ 625,669</u>

Future minimum lease payments are as follows:

Year ending June 30,	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 200,393	\$ 22,929	\$ 223,322
2013	208,448	14,874	223,322
2014	216,828	6,494	223,322
	<u>\$ 625,669</u>	<u>\$ 44,297</u>	<u>\$ 669,966</u>

Roundhouse Road Receivable

\$14,612 of the Roundhouse Road receivable is not expected to be collected within one year.

Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 55,187	\$ 12,500	\$ -	\$ 67,687
Construction-in-progress	53,316	-	(53,316)	-
Total capital assets, not being depreciated	<u>108,503</u>	<u>12,500</u>	<u>(53,316)</u>	<u>67,687</u>
Capital assets, being depreciated				
Buildings/improvements	5,724,787	437,708	(74,825)	6,087,670
Machinery and equipment	5,191,579	551,861	(208,385)	5,535,055
Infrastructure	527,678	180,811	-	708,489
Total capital assets, being depreciated	<u>11,444,044</u>	<u>1,170,380</u>	<u>(283,210)</u>	<u>12,331,214</u>
Less accumulated depreciation for:				
Buildings/improvements	(2,178,798)	(145,051)	13,594	(2,310,255)
Machinery and equipment	(3,793,887)	(349,146)	208,385	(3,934,648)
Infrastructure	(10,093)	(13,266)	-	(23,359)
Total accumulated depreciation	<u>(5,982,778)</u>	<u>(507,463)</u>	<u>221,979</u>	<u>(6,268,262)</u>
Total capital assets, being depreciated, net	<u>5,461,266</u>	<u>662,917</u>	<u>(61,231)</u>	<u>6,062,952</u>
Governmental activities capital assets, net	<u>\$ 5,569,769</u>	<u>\$ 675,417</u>	<u>\$ (114,547)</u>	<u>\$ 6,130,639</u>

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 13,261	\$ -	\$ -	\$ 13,261
Construction-in-progress	201,940	722,449	-	924,389
Total capital assets, not being depreciated	<u>215,201</u>	<u>722,449</u>	<u>-</u>	<u>937,650</u>
Capital assets, being depreciated				
Buildings	115,181	-	-	115,181
Improvements other than buildings	4,977,464	-	-	4,977,464
Machinery and equipment	174,446	15,595	-	190,041
Total capital assets, being depreciated	<u>5,267,091</u>	<u>15,595</u>	<u>-</u>	<u>5,282,686</u>
Less accumulated depreciation for:				
Buildings	(44,573)	(1,841)	-	(46,414)
Improvements other than buildings	(3,930,838)	(161,540)	-	(4,092,378)
Machinery and equipment	(158,842)	(17,164)	-	(176,006)
Total accumulated depreciation	<u>(4,134,253)</u>	<u>(180,545)</u>	<u>-</u>	<u>(4,314,798)</u>
Total capital assets, being depreciated, net	<u>1,132,838</u>	<u>(164,950)</u>	<u>-</u>	<u>967,888</u>
Business-type activities capital assets, net	<u>\$ 1,348,039</u>	<u>\$ 557,499</u>	<u>\$ -</u>	<u>\$ 1,905,538</u>

Depreciation expense was charged as follows:

Governmental activities:	
General government	\$ 50,438
Public safety	59,718
Public works	293,698
Public health	12,041
Social and economic	7,922
Culture and recreation	83,646
Total depreciation-governmental activities	<u>\$ 507,463</u>
Business-type activities:	
Airport	<u>\$ 180,545</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances (due from/to other funds) as of June 30, 2011, consisted of the Roundhouse Road fund owing the USG Loan fund \$66,507. \$962 is expected to be repaid next fiscal year.

Interfund transfers consisted of the following

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Total</u>
Governmental activities:			
General	\$ 134,412	\$ (55,081)	\$ 79,331
Road	328,862	-	328,862
PILT	-	(304,411)	(304,411)
Internal service	-	(45,000)	(45,000)
Nonmajor governmental funds	158,584	(192,366)	(33,782)
	<u>\$ 621,858</u>	<u>\$ (596,858)</u>	<u>\$ 25,000</u>
Business-type activities:			
Airport	<u>\$ -</u>	<u>\$ (25,000)</u>	<u>\$ (25,000)</u>

Transfers are made to finance various programs accounted for in other funds in accordance with budgetary authorizations.

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Leases

The government has entered into certain capital lease agreements under which the related equipment will become the property of the government when all terms of the lease agreements are met. Assets acquired through capital leases are as follows:

	Governmental Activities
Machinery and equipment	\$ 245,594
Less: accumulated depreciation	(17,542)
	\$ 228,052

The future minimum lease obligations and the present value of these minimum lease payments, as of June 30, 2011, are as follows:

	Year ending June 30,	Governmental Activities
	2012	\$ 57,310
	2013	57,310
Total minimum lease payments		114,620
Less: amount representing interest		(6,439)
Present value of minimum lease payments		\$ 108,181

Long-Term Debt

During 2004, the County issued a Hospital Revenue Note to payoff the 1993 revenue refunding bonds. The government pledged net rental payments from the Central Montana Medical Facilities, Inc. (CMMF) lease to pay debt service. If the net rental payments from CMMF become insufficient, the note is backed by the full faith and credit of the County by an ad valorem tax levy upon all taxable property in the County. Notes payable, including the Hospital Revenue Note, are as follows:

	Original Amount	Term	Interest Rate	Payment	Governmental Activities	Business-type Activities
Airport-2006	\$ 8,250	10 yrs	2.50%	Annual	-	\$ 4,125
Airport-2007	14,232	10 yrs	3.63%	Annual	-	8,539
Airport-2010	3,947	10 yrs	1.63%	Annual	-	3,158
Airport-2011	140,000	10 yrs	1.63%	Annual	-	128,000
Airport-2011	35,000	10 yrs	1.63%	Annual	-	31,500
Fair equipment-2008	29,555	4 yr	0.00%	Annual	7,388	-
Hospital Revenue Note	1,980,000	10 yrs	3.98%	Semi-annual	-	625,669
					\$ 7,388	\$ 798,991

Annual debt service requirements to maturity for notes payable is as follows:

June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 7,388	-	\$ 7,388	\$ 220,536	\$ 25,953	\$ 246,489
2013	-	-	-	228,591	17,535	246,126
2014	-	-	-	236,971	8,790	245,761
2015	-	-	-	20,143	1,934	22,077
2016	-	-	-	20,143	1,572	21,715
2017-2021	-	-	-	72,607	2,934	75,541
	\$ 7,388	-	\$ 7,388	\$ 798,991	\$ 58,718	\$ 857,709

Pollution Remediation Obligation

The County received a notice of violation from the Department of Environmental Quality (DEQ). The notice stated the County violated the Hazardous Waste Act by unlawfully disposing of hazardous waste and operating a hazardous waste management facility without a permit. The DEQ issued an administrative order on consent that required the County to remit a work plan to the DEQ that outlines the

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

County's plan to remove and properly manage used oil and hazardous waste. The cleanup must be completed by December 2011. The County recorded a liability, which totals \$687,525 at June 30, 2011, to address required environmental cleanup costs. The estimate of costs used to establish the liability was developed through extensive site analysis by independent engineers retained by the County. The liability could change due to price increases, changes in technology, or other factors. There are no expected recoveries from other responsible parties or from the County's insurer.

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Governmental activities:					
Notes payable	\$ 159,922	-	\$ (152,534)	\$ 7,388	\$ 7,388
Pollution remediation obligation	1,235,120	-	(547,595)	687,525	687,525
Capital leases	-	108,181	-	108,181	53,242
Compensated absences	359,149	-	(1,977)	357,172	35,717
Governmental activity long-term liabilities	\$ 1,754,191	\$ 108,181	\$ (702,106)	\$ 1,160,266	\$ 783,872

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Business-type activities:					
Notes payable	\$ 836,784	\$ 175,000	\$ (212,793)	\$ 798,991	\$ 220,536
Compensated absences	11,909	51	-	11,960	1,196
Business-type activity long-term liabilities	\$ 848,693	\$ 175,051	\$ (212,793)	\$ 810,951	\$ 221,732

For the governmental activities, notes payable are liquidated with resources accumulated in the Fair CIP Voted Levy fund and capital leases are liquidated within the Road fund. Compensated absences are paid from the fund in which the employee is paid. Pollution control remediation obligations are liquidated with Road and PILT fund resources.

Conduit Debt

To provide for the construction of improvements to the County-owned hospital, the County issued Healthcare and Boarding Home Facilities Revenue Notes amounting to \$525,000 in 2003. In August 2006, an additional \$1,500,000 note was issued for equipment. These notes are special limited obligations of the County, payable solely from and secured by a pledge of Central Montana Medical Facilities, Inc. revenues. The notes do not constitute a debt or pledge of the faith and credit of the County or the State, and accordingly have not been reported in the basic financial statements. As of June 30, 2011, Healthcare and Boarding Home Facilities Revenue Notes outstanding were \$123,715 and \$166,843, respectively.

NOTE 4. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in a state-wide public risk pool, MACO, for workers' compensation coverage. The government pays monthly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. The government also participates in MACO's Joint Powers Insurance Authority which offers insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Given lack of coverage available, the government has no coverage for potential losses from environmental damages.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts, of approximately \$2.4 million, primarily for construction projects at the airport. Additionally, the government received a commitment letter from the Montana Board of Investments to loan the County \$999,000 for emergency repairs. The loan is payable over 15 years, with an interest rate of 1.95%.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Self-Insurance Plan

During the year ended June 30, 2011, employees of the government were covered by a medical self-insurance plan (the "plan"). Employees, at their option, authorized payroll withholdings to pay contributions for dependents. The government did not contribute to the plan and is using available cash to fund the employer share. Claims were paid by a third party administrator acting on behalf of the government.

The administrative contract between the government and the third party administrator is renewable annually and administrative fees and stop-loss premiums are included in the contractual provisions. The government was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage through Montana Joint Powers Trust (MJPT). Stop-loss coverage was in effect for individual claims exceeding \$25,000 and for aggregate loss, which is based on a factor determined by MJPT. The aggregate stop-loss coverage was \$646,446.

The costs associated with the medical self-insurance plan are reported as interfund transactions. Accordingly, they are treated as operating revenues in the internal service fund and as operating expenditures of the governmental and enterprise funds. The liability of the medical self-insurance plan includes incurred but not reported claims. The liability as of June 30, 2011, is based on the requirements of Governmental Accounting Standards No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability includes an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Changes in the claims liability amount during fiscal years 2011 and 2010 were:

	Liability July 1,	Current Year Claims and Changes in Estimates	Claims Payments	Liability June 30,
2010-11	\$ 45,669	\$ 579,937	\$ (487,705)	\$ 137,901
2009-10	27,335	516,497	(498,163)	45,669

Interlocal Agreements

The City of Lewistown and Fergus County entered into an agreement to fund a library for City and County residents. Fergus County levied 1.4 mills in 2011 for library purposes and contributed \$56,470 for the year ended June 30, 2011. The City maintains the library accounting records and includes the financial activities of the library in its financial statements.

The City-County Airport is owned and operated jointly by the City of Lewistown and Fergus County. The operation of the airport is accounted for by the County as an enterprise fund. All capital assets are recorded within the County's accounting records. The airport is administered by a five-member board, consisting of the City's manager, a City-appointed member, one County commissioner, a County-appointed member and one member-at-large appointed by the Airport Board. The budget is approved by the controlling members. The Airport Board exercises control over the airports normal operations.

The City of Lewistown and Fergus County entered into an agreement whereby the County provides a justice of the peace who acts as City judge for the City. The City contributes forty-five percent of fines and assessments collected or \$25,000, whichever is greater. The County maintains the accounting records and remits a monthly accounting to the City.

Jointly Governed

Central Montana Health District Number 6 (CMHD)

The CMHD, which was formed September 1987, was created under the provisions of Montana Code Annotated. The District was formed to provide for the salaries of sanitarians. District members make contributions to Fergus County (responsible for record keeping and reporting), based on population.

South Central Montana Regional Mental Health Center

The Fergus County Mental Health Center is a satellite office of the South Central Montana Regional Mental Health Center located in Billings, Montana. The County belongs to Region No. 3 which consists of eleven counties. The District was created under the provisions of Montana Code Annotated (MCA). Each County is represented on the Board by one of its county commissioners. Fergus County contributed \$14,254 during fiscal year 2011. The purpose of the Center is to initiate preventive mental health activities for statewide mental health programs and to perform other duties as listed in MCA.

FERGUS COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Fergus County Council on Aging

The Fergus County Council on Aging is a satellite office of the Area II Agency on Aging (Area II). Eleven counties belong to Area II. Fergus County contributes money to Area II each fiscal year for the purpose of matching federal grants that Area II obtains. During the year ended June 30, 2011 the County contributed \$28,856 for matching purposes.

Retirement Plans

The government participates in three statewide mandatory cost-sharing multiple employer defined benefit retirement plans. The Sheriff's Retirement System (SRS) covers the County Sheriff, Undersheriff and Deputy Sheriffs of the County. The Public Employees Retirement System (PERS) covers other County employees. The Teachers' Retirement System (TRS) covers the county superintendent. The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

Beginning in fiscal year 2002, eligible members of PERS had a 12-month window to choose between the PERS-defined benefit retirement plan (DBRP) or the PERS-defined contribution retirement plan (DCRP). Eligible new hires have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP. Members may not be active in both the defined contribution and defined benefit retirement plans. The choice is irrevocable. For members that choose to join the PERS-DCRP, a percentage of the employer contribution is used to maintain the funding of the defined benefit plan.

The plans issue a publicly available financial report that include financial statements and required supplementary information. The reports may be obtained from the Public Employees' Retirement Board, 100 North Park, P.O. Box 200131, Helena, Montana 59620-0131, telephone (406) 444-3154.

Contribution rates for the plans are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	Employer	Employee	Total
SRS	10.115%	9.245%	19.360%
PERS	7.070%	6.900%	13.970%
TRS	7.470%	7.150%	14.620%

The State of Montana contributes .1% and 2.49% per year to the PERS and TRS plans, respectively, on behalf of the employer. The State of Montana contribution has not been recorded in the financial statements.

The amounts contributed to the plans during the years ended June 30, 2011, 2010 and 2009 were equal to the required contributions for each year. The amounts contributed by both the government and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	2011	2010	2009
SRS	\$105,249	\$104,470	\$104,597
TRS	5,676	5,539	5,437
PERS	<u>338,205</u>	<u>325,955</u>	<u>301,034</u>
	<u>\$449,130</u>	<u>\$435,964</u>	<u>\$411,068</u>

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

- o In December 2010, the Governmental Accounting Standards Board (GASB) approved Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011.
- o In November 2010, the Governmental Accounting Standards Board (GASB) approved Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34. The provisions of this statement are effective for periods beginning after June 15, 2012.

FERGUS COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 General Fund
 For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual Amounts
	<u>Original</u>	<u>Final</u>	
REVENUES			
Taxes and assessments	\$1,737,656	\$ 1,737,656	\$ 1,877,852
Fines and forfeitures	79,000	79,000	84,960
Licenses and permits	500	500	600
Intergovernmental	285,851	285,851	287,897
Charges for services	360,548	360,548	389,966
Investment earnings	50,000	50,000	67,824
Miscellaneous	6,000	6,000	18,279
Total revenues	<u>2,519,555</u>	<u>2,519,555</u>	<u>2,727,378</u>
EXPENDITURES			
Current:			
General government	1,372,504	1,372,504	1,466,852
Public safety	1,391,836	1,391,836	1,287,502
Public health	187,465	187,465	187,334
Social and economic services	7,000	7,000	8,390
Capital outlay	396,000	396,000	19,000
Total expenditures	<u>3,354,805</u>	<u>3,354,805</u>	<u>2,969,078</u>
Excess (deficiency) of revenues over expenditures	<u>(835,250)</u>	<u>(835,250)</u>	<u>(241,700)</u>
OTHER FINANCING SOURCES (USES)			
Insurance recoveries	447,780	447,780	401,309
Transfers in	127,483	127,483	134,412
Transfers out	(55,081)	(55,081)	(55,081)
Total other financing sources (uses)	<u>520,182</u>	<u>520,182</u>	<u>480,640</u>
Net change in fund balance	<u>\$ (315,068)</u>	<u>\$ (315,068)</u>	238,940
Fund balance - beginning			1,140,594
Fund balance - ending			<u>\$ 1,379,534</u>

REQUIRED SUPPLEMENTARY INFORMATION

See notes to required supplementary information.

FERGUS COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Road Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes and assessments	\$ 559,552	\$ 559,552	\$ 557,775
Intergovernmental	1,037,106	832,695	821,566
Charges for services	27,000	27,000	89,065
Investment earnings	-	-	9
Total revenues	<u>1,623,658</u>	<u>1,419,247</u>	<u>1,468,415</u>
EXPENDITURES			
Current:			
Public works	1,797,546	1,797,546	1,514,382
Capital outlay	173,181	281,362	245,362
Total expenditures	<u>1,970,727</u>	<u>2,078,908</u>	<u>1,759,744</u>
Excess (deficiency) of revenues over expenditures	<u>(347,069)</u>	<u>(659,661)</u>	<u>(291,329)</u>
OTHER FINANCING SOURCES			
Long-term debt issued	-	108,181	108,181
Insurance recoveries	-	-	968
Transfers in	28,360	232,771	328,862
Total other financing sources	<u>28,360</u>	<u>340,952</u>	<u>438,011</u>
Net change in fund balance	<u>\$ (318,709)</u>	<u>\$ (318,709)</u>	146,682
Fund balance - beginning			<u>918,446</u>
Fund balance - ending			<u>\$ 1,065,128</u>

FERGUS COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PILT Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Investment earnings	-	-	\$ 565
Total revenues	<u>-</u>	<u>-</u>	<u>565</u>
EXPENDITURES:			
Current:			
General government	1,182,091	877,680	15,103
Housing and community development	-	-	1,865
Total expenditures	<u>1,182,091</u>	<u>877,680</u>	<u>16,968</u>
Excess expenditures over revenues	<u>(1,182,091)</u>	<u>(877,680)</u>	<u>(16,403)</u>
OTHER FINANCING USES			
Transfers out	-	(304,411)	(304,411)
Total other financing uses	<u>-</u>	<u>(304,411)</u>	<u>(304,411)</u>
Net change in fund balance	<u>\$(1,182,091)</u>	<u>\$ (1,182,091)</u>	(320,814)
Fund balance - beginning			<u>1,432,091</u>
Fund balance - ending			<u>\$ 1,111,277</u>

FERGUS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2011

BUDGETARY INFORMATION

Money may not be disbursed, expended or obligated except pursuant to an appropriation for which working capital is or will be available. The final budget is legally enacted by the governing body by the later of the second Monday in August or within 45 days of receiving certified taxable values from the Department of Revenue, after holding public hearings as required by state statute. Budgeted fund expenditures/expenses are limited by state law to budgeted amounts. Budgets may be amended for circumstances described by state law. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers and amendments, if applicable. All appropriations, except for construction in-progress, lapse at year-end. The government does not utilize a formal encumbrance accounting system.

OTHER SUPPLEMENTARY INFORMATION

FERGUS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor/Cluster or Program Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2010	Receipts	Expenditures	Returned to Grantor/Other	Balance June 30, 2011
U.S. Department of Transportation:								
Direct Program:								
Airport Improvement Program	20.106	DOT-FA09NM-2020	\$ 198,693	\$ -	\$ 530	\$ 530	\$ -	\$ -
Airport Improvement Program	20.106	DOT-FA10NM-2030	294,921	-	293,300	293,099	(1,822)	(31,821)
Airport Improvement Program	20.106	DOT-FA10NM-2054	2,639,083	-	347,569	366,384	-	(18,815)
Airport Improvement Program	20.106	DOT-FA11NM-2026	132,435	-	-	-	-	-
Subtotal					611,399	660,013	(1,822)	(50,436)
Passed through the Montana Department of Military Affairs-Disaster & Emergency Services								
Division:								
Intergency Hazardous Materials Public Sector Training and Planning Grants	20.703	HM-HMP-055-09-01-00	11,470	(6,162)	6,162	-	-	-
Subtotal				(6,162)	6,162	-	-	-
Passed through the Montana Department of Transportation:								
Highway Planning and Construction	20.205	STPE 14(35)	160,357	(1,476)	103,276	147,910	1,476	(44,604)
Highway Planning and Construction	20.205	STPE 14(18)	28,123	-	28,123	28,123	-	-
Subtotal				(1,476)	131,399	176,033	1,476	(44,604)
Total U.S. Department of Transportation				(7,638)	748,060	836,046	(348)	(95,070)
U.S. Department of Justice:								
Direct Program:								
Bulletproof Vest Partnership Program	16.710	SUM II R08 6020	1,570	-	709	709	-	-
Subtotal				-	709	709	-	-
Passed through the Montana Board of Crime Control:								
Crime Victim Assistance	16.575	09-V01-90494	34,000	(11,862)	11,862	-	-	-
Crime Victim Assistance	16.575	10-V01-90811	31,977	-	22,727	31,977	-	(9,250)
Subtotal				(11,862)	34,589	31,977	-	(9,250)
Total U.S. Department of Justice				(11,862)	35,298	32,686	-	(9,250)
U.S. Department of Homeland Security:								
Passed through the Montana Department of Military Affairs-Disaster & Emergency Services Division:								
Emergency Management Performance Grants	97.042	2009-EP-ED-0009	38,906	(4,264)	4,264	-	-	-
Emergency Management Performance Grants	97.042	2010-EP-ED-0015	41,875	-	21,137	30,957	-	(9,820)
Subtotal				(4,264)	25,401	30,957	-	(9,820)
Homeland Security Grant Program	97.057	2009-S9-T9-0005	17,806	-	17,806	3,759	(14,047)	-
Subtotal				-	17,806	3,759	(14,047)	-
Total U.S. Department of Homeland Security				(4,264)	43,207	34,716	(14,047)	(9,820)
U.S. Department of Health and Human Services:								
Passed through the Montana Department of Public Health and Human Services:								
Maternal and Child Health Services								
Block Grant to the States	93.994	11-07-5-01-057-0	3,965	-	3,965	3,965	-	-
Maternal and Child Health Services Block Grant to the States	93.994	11-07-5-01-035-0	1,500	-	1,500	1,500	-	-
Maternal and Child Health Services Block Grant to the States	93.994	11-07-5-11-009-0	137	-	137	137	-	-
Maternal and Child Health Services Block Grant to the States	93.994	11-07-5-01-014-0	11,075	-	11,075	11,075	-	-
Subtotal				-	17,277	17,277	-	-
Passed through the Montana State University:								
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	G153-11-W9390	15,000	-	11,250	15,000	-	(3,750)
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	G250-09-W2236	24,000	(3,750)	3,750	-	-	-
Passed through the Montana Department of Public Health and Human Services:								
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	10-07-3-01-003-0	34,800	(3,581)	7,712	4,131	-	-

FERGUS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor/Cluster or Program Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2010	Receipts	Expenditures	Returned to Grantor/Other	Balance June 30, 2011
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	11-07-3-01-003-0	51,640	-	38,508	46,623	-	(6,115)
Subtotal				(7,331)	61,220	65,754	-	(11,865)
HIV Prevention Activities-Health Department Based	93.940	09-07-4-51-005-0	4,035	-	1,257	1,598	-	(341)
HIV Prevention Activities-Health Department Based	93.940	10-07-4-51-009-0	4,035	(249)	3,277	3,028	-	-
Subtotal				(249)	4,534	4,626	-	(341)
Immunization Grants	93.268	11-07-4-31-055-0	4,680	-	2,340	3,529	-	(1,189)
Immunization Grants	93.268	11-07-4-31-014-0	5,705	-	2,850	3,896	-	(1,136)
Immunization Grants	93.268	10-07-4-31-055-0	4,680	(682)	3,510	1,150	(1,678)	-
Immunization Grants	93.268	10-07-4-31-014-0	5,705	(3,674)	4,618	944	-	-
Subtotal				(4,356)	13,318	9,609	(1,678)	(2,325)
Public Health Emergency Preparedness	93.069	11-07-6-11-010-0	155,132	-	85,322	99,236	-	(13,914)
Public Health Emergency Preparedness	93.069	10-07-6-11-010-0	249,750	12,100	66,810	29,555	(62,355)	-
Subtotal				12,100	155,132	128,791	(52,355)	(13,914)
Preventive Health and Health Services Block Grant	93.091	11-07-5-11-009-0	1,752	-	1,752	1,752	-	-
Subtotal				-	1,752	1,752	-	-
Family Planning Services	93.217	11-07-5-11-009-0	30,120	-	30,120	30,120	-	-
Subtotal				-	30,120	30,120	-	-
Total U.S. Department of Health and Human Services				164	263,353	257,929	(54,033)	(28,445)
U.S. Department of the Interior:								
Direct Programs:								
Bankhead Jones Farm Tenant Act	15.999	N/A	12,408	-	12,408	12,408	-	-
Subtotal				-	12,408	12,408	-	-
Refuge Revenue Sharing	15.659	N/A	460	-	460	460	-	-
Subtotal				-	460	460	-	-
Total U.S. Department of the Interior				-	12,868	12,868	-	-
U.S. Department of Energy:								
Passed through the Montana Department of Environmental Quality:								
ARRA - Energy Efficiency and Conservation Block Grant Program, Recovery Act	81.128	210150	166,152	-	-	164,906	-	(164,906)
Total U.S. Department of Energy				-	-	164,906	-	(164,906)
U.S. Department of Agriculture:								
Passed through the Montana Department of Natural Resources and Conservation:								
Cooperative Forestry Assistance	10.664	N/A	20,000	-	13,830	13,830	-	-
Subtotal				-	13,830	13,830	-	-
Passed through Montana State Auditor's Office:								
Secure Payments for States and Counties Containing Federal Lands	10.665	N/A	65,476	-	65,476	65,476	-	-
Subtotal				-	65,476	65,476	-	-
Total U.S. Department of Agriculture				-	79,306	79,306	-	-
Total Federal Awards				\$ (23,600)	\$ 1,202,992	\$ 1,418,457	\$ (68,426)	\$ (307,491)

Note to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is a summary of cash receipts and federal expenditures related to the County's federal award programs. This schedule is presented in accordance with grant terms and conditions, which are not on the accrual basis of accounting as contemplated by generally accepted accounting principles.

FERGUS COUNTY
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL
AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF TRANSPORTATION:

2010-13. AIRPORT IMPROVEMENT PROGRAM, CFDA NO. 20.106, GRANT NO. DOT-FA09NM-2020, GRANT PERIOD YEAR ENDED JUNE 30, 2010

Criteria: The OMB Circular A-133 Compliance Supplement Cash Management requirements dictate that when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

Condition: For the County's Airport Improvement Program grant (CFDA No. 20.106), we requested and received reimbursement for engineering and professional services between 8 and 170 days prior to actually disbursing the warrants.

Cause: Unknown.

Effect: Non-compliance with grant terms and conditions.

Recommendation: The auditors recommended that we establish effective cash management procedures that will either minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement of those funds or request reimbursement after the disbursement has actually been made.

Current Status: Implemented

2010-14. ALL MAJOR FEDERAL PROGRAMS

Criteria: Our auditors were engaged to assist in the preparation of the government's financial statements and schedule of expenditures of federal awards (SEFA). The government ensures the quality of its financial statements and SEFA by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: We did not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements and SEFA.

Cause: We are a small organization with limited resources.

Effect: It is common within the governmental sector to rely the audit firm to prepare the financial statements and SEFA; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements and SEFA, this weakness in internal control would be classified as material.

Recommendation: The auditors recommended that we continue to read our draft financial statements and SEFA and ensure the quality of the document and the preparer.

Current Status: This finding is repeated in the Schedule of Findings and Questioned Costs as finding 2011-12.

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The auditors recommended that we continue to evaluate our segregation of duties and when possible assign tasks to strengthen controls.

Current Status: This finding is repeated in the Schedule of Findings and Questioned Costs as finding 2011-12.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of County Commissioners
Fergus County
Lewistown, Montana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fergus County, Montana (the government) as of and for the year ended June 30, 2011, which collectively comprise the government's basic financial statements and have issued our report thereon dated December 8, 2011. The report included an explanatory paragraph to describe a change in accounting principle. In addition, the report on governmental activities, the road fund and the aggregate remaining fund information was qualified because materials and supplies inventory was not recorded. Also, the report on governmental activities, the business-type activities and proprietary funds (excluding the hospital nursing home) was qualified because management has not recorded the other post employment benefit (OPEB) liability and related expense. Except as discussed in the second sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the government's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the government's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (Findings 2011-1 through 2011-7)

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. (Findings 2011-8 through 2011-11)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2011-6, 2011-10 and 2011-11.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

The government did not respond to the findings and questioned costs identified in our audit. Section 2-7-515, Montana Code Annotated, states that the government should respond to any findings in the audit report within 30 days after the receipt of the final audit report.

This report is intended solely for the information and use of the management, the governing board, others within the entity, the Montana Department of Administration and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Olness & Associates, PC

December 8, 2011

OLNESS & ASSOCIATES, P. C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of County Commissioners
Fergus County
Lewistown, Montana

Compliance

We have audited Fergus County, Montana's (the government) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the government's major federal programs for the year ended June 30, 2011. The government's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the government's management. Our responsibility is to express an opinion on the government's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the government's compliance with those requirements.

In our opinion, the government complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the government is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the government's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the government's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-12 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)

The government did not respond to the findings and questioned costs identified in our audit. Section 2-7-515, Montana Code Annotated, states that the government should respond to any findings in the audit report within 30 days after the receipt of the final audit report.

This report is intended solely for the information and use of the management, the governing board, others within the entity, the Montana Department of Administration and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Oless & Associates, PC

December 8, 2011

FERGUS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

Type of auditor's report issued: qualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to the financial statements noted? yes no

FEDERAL AWARDS:

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program
10.665	Secure Payments for States and Counties Containing Federal Lands

Dollar threshold used to distinguish between type A and type B programs? \$300,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

2011-1. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements and schedule of expenditures of federal awards (SEFA). The government ensures the quality of its financial statements and SEFA by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: The government does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements and SEFA.

Cause: The government is a small organization with limited resources.

Effect: It is common within the governmental sector to rely on the audit firm to prepare the financial statements and SEFA; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements and SEFA, this weakness in internal control would be classified as material.

Recommendation: The government should continue to read its draft financial statements and SEFA and ensure the quality of the document and the preparer.

FERGUS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

2011-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED

Criteria: U.S. generally accepted accounting principles require the OPEB liability and related expense be recorded in the financial statements.

Condition: The government did not record the other post employment benefit (OPEB) liability and related expense (GASB Statement No. 45) in the financial statements.

Cause: The government did not engage an actuarial firm to assist in determining the OPEB liability and related expense as of and for the year ended June 30, 2011.

Effect: The governmental activities, business-type activities and proprietary funds' liabilities are understated, net assets are overstated and expenses are understated.

Recommendation: The government should engage an actuarial firm to determine the OPEB liability and related expense.

2011-3. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

2011-4. JUSTICE OF THE PEACE TIME PAY ACCOUNTING

Criteria: A reconciliation of the monthly time pay activity to the beginning and ending time pay balances should be prepared to determine that all transactions have been recorded properly and to discover errors and irregularities. Further, a formal time pay reconciliation is a useful tool in evaluating and monitoring outstanding time pay balances.

Condition: The Justice of the Peace office does not perform a monthly time pay account reconciliation.

Cause: Unknown.

Effect: Not reconciling the time pay accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis.

Recommendation: The Justice of the Peace office should prepare a formal reconciliation of time pay activity to the beginning and ending time pay balances on a monthly basis. Once completed, the reconciliation should be reviewed and approved by the Justice of the Peace.

2011-5. COUNTY FAIR

Criteria: Ticket reconciliation forms provide effective cash controls over admission charges.

Condition: Fair gate receipts are not formally accounted for through ticket reconciliation forms. Collections were placed in a bag with a note attached as to how many tickets the ticket sellers thought they had sold. Further, for night shows and fair entertainment events, reconciliation reports that are generated from the fair's ticket management software were not printed immediately after the conclusion of the events and used to reconcile tickets sold to cash collected. The reconciliation reports were only printed upon request of the County Treasurer when receiving fair cash collections.

Cause: Unknown.

Effect: Cash controls are weakened.

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FERGUS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

Recommendation: We recommend the accounting policies and procedures and overall operation of the fair be reviewed and updated to strengthened internal control over the fair operations and cash collections. Once formalized, it should be expected that the fair manager and fair employees adhere to the established procedures.

2011-6. DEVELOP PROCEDURES TO ENSURE TIMELY PAYROLL TAX DEPOSITS

Criteria: The county is considered a semiweekly depositor for federal payroll tax deposit purposes. Under the semiweekly deposit schedule, employment taxes for Wednesday, Thursday, and/or Friday paydays are required to be deposited by the following Wednesday. Deposit taxes for Saturday, Sunday, Monday, and/or Tuesday paydays must be made by the following Friday. Semiweekly schedule depositors have at least 3 business days to make a deposit. If any of the 3 weekdays after the end of a semiweekly period is a legal holiday, you will have an additional day for each day that is a legal holiday to make the required deposit. For example, if a semiweekly schedule depositor accumulated taxes for payments made on Friday and the following Monday is a legal holiday, the deposit normally due on Wednesday may be made on Thursday (this allows 3 business days to make the deposit).

Condition: The county does not have procedures in place to ensure the timely deposit of payroll taxes.

Cause: Unknown.

Effect: During fiscal year 2011, the clerk and recorder's office incurred and paid \$6,348.01 in penalties and interest to the Internal Revenue Service because certain payroll tax deposits were not made in a timely manner.

Recommendation: We recommend procedures be developed to ensure the timely deposit of payroll taxes in order to avoid late payment penalties and interest.

2011-7. GRANT MANAGEMENT

Criteria: Grant funding is a significant portion of Fergus County's annual operating budget. The County has multiple locations with substantial decentralization of department heads and management. It is important that a highly-developed, well-communicated, and consistent grant management system be maintained.

Condition: Most of the major grant funded functions and activities exist outside of the courthouse at various locations. Currently, there are no existing policies and procedures to ensure that grants are managed in a consistent or uniform manner and in accordance with all grant terms and conditions. Further, no one person is in charge of identifying, organizing and monitoring federal and state grants.

Cause: Unknown.

Effect: Potential non-compliance with grant terms and conditions.

Recommendation: The County should identify, in detail, the various grant funded activities existing within the County and how and where they are administered. The County should then designate or assign someone the task of organizing and monitoring federal and state grants. The individual would be responsible for the following: a). classification of grant revenues b). maintaining complete and organized grant files, including the grant application, correspondence with the granting agency, draw requests, evidence of monitoring any special grant terms and conditions and the close out report that agrees with the accounting records, c). developing adequate cash management procedures, d). monitoring match requirements and, when applicable, e). follow up with subrecipients.

2011-8. RECONCILE PAYROLL WAGE BASES

Criteria: To ensure the accuracy of payroll setup, the various wage bases (unemployment, workers compensation, social security, medicare and federal wages) reported on the federal and state payroll reports should be reconciled at end of each payroll period.

Condition: The various wage bases reported on the federal and state payroll reports were not reconciled.

Cause: Unknown.

Effect: Errors in the payroll setup may occur and not be detected in a timely manner.

Recommendation: To ensure the accuracy of payroll setup, we recommend the various wages bases be reconciled at the end of each payroll period.

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FERGUS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

2011-9. CLAIMS PROCESSING

Criteria: The county's claims processing procedures require a Fergus County claim form be prepared for all disbursements. The claims are to be supported by sufficient documentation and contain the signatures of at least two commissioners and the clerk and recorder.

Condition: Claims were processed and paid without sufficient documentation and/or the required approvals.

Cause: Internal processing controls were not adhered to.

Effect: Internal controls are weakened.

Recommendation: The county should adhere to its claims processing procedures.

2011-10. STATE PREVAILING WAGE RATES

Criteria: Per Section 18-2-422, MCA all public works contracts and the bid specifications for those contracts must contain (1) a provision stating for each job classification the standard prevailing wage rate, including fringe benefits, that the contractors and employers shall pay during construction of the project; (2) a provision requiring each contractor and employer to maintain payroll records in a manner readily capable of being certified for submission to the Department of Labor & Industry for not less than 3 years after the contractor's or employer's completion of work on the project; and (3) a provision requiring each contractor to post a statement of all wages and fringe benefits.

Condition: The bid advertisement and contracts for the jail roof repair and fair campground electrical upgrade projects did not contain the required state prevailing wage rate language.

Cause: Unknown

Effect: Failure to include these provisions in a public works contract relieves the contractor from the obligation to pay the standard prevailing wage rate and places the obligation on the public contracting agency. (MCA 18-2-403(9); ARM 24.17.144)

Recommendation: All public works contracts and the bid specifications for those contracts should contain the provisions that will satisfy the requirements of the Montana Prevailing Wage statutes.

2011-11. COMPETITIVE BIDDING

Criteria: Per Section 7-5-2301, MCA, a contract for the purchase of any vehicle, road machinery or other machinery, apparatus, appliances, equipment, or materials or supplies for construction, repair, or maintenance in excess of \$50,000 may not be entered into by a County governing body without first publishing a notice calling for bids.

Condition: The county contracted to repair the courthouse roof for \$116,000 and purchased weed chemicals for \$53,000 without going through the formal bid process.

Cause: Unknown

Effect: Noncompliance with state procurement statutes.

Recommendation: A contract for any purchase in excess of \$50,000 should be formally advertised for bid in accordance with Section 7-5-2301, MCA.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2011-12. ALL MAJOR FEDERAL PROGRAMS

Findings 2011-1 and 2011-3 apply to these federal award programs.

FERGUS COUNTY
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

PRIOR YEAR FINANCIAL STATEMENT FINDINGS	STATUS
2010-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2010-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2010-3. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2010-4. SELF-INSURANCE FUND NET ASSETS/RESERVES	IMPLEMENTED
2010-5. JUSTICE OF THE PEACE TIME PAY ACCOUNTING	NOT IMPLEMENTED
2010-6. CASH MANAGEMENT	IMPLEMENTED
2010-7. GRANT MANAGEMENT	NOT IMPLEMENTED
2010-8. COUNTY FAIR	NOT IMPLEMENTED
2010-9. EXTERNAL EMPLOYMENT POLICY	IMPLEMENTED
2010-10. RECONCILE PAYROLL WAGE BASES	NOT IMPLEMENTED
2010-11. COMPETITIVE BIDDING	NOT IMPLEMENTED
2010-12. GROSS RECEIPTS TAX	

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